

Improvement of Financial Management
in the
United States Government

Progress 1948-1963

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SECRETARY OF THE TREASURY
DIRECTOR OF THE BUREAU OF THE BUDGET
COMPTROLLER GENERAL OF THE UNITED STATES

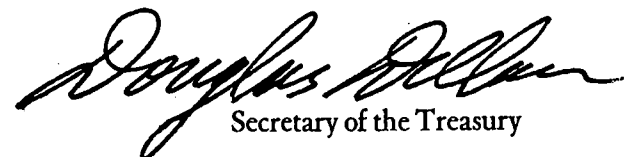
December 19, 1963

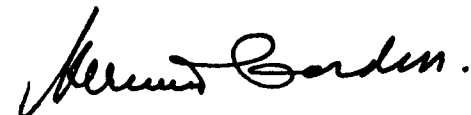
TO HEADS OF DEPARTMENTS AND ESTABLISHMENTS:
SUBJECT: Fifteen years of progress under the Joint Financial Management Improvement Program

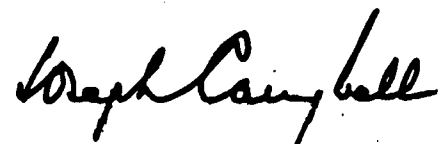
The report this year marks an auspicious occasion—the 15th anniversary of the joint program. Notable and significant strides have been made in modernizing the financial management systems of the Federal Government. These accomplishments attest to the vision and foresight of those who organized this program in 1948.

Now, as then, our overriding goal continues to be effective management use of timely and meaningful financial information that will assist in the decision-making process, and contribute to maximum program results at a minimum cost. There is much work to be done to establish acceptable systems in all agencies, and to move as far as we can, in each case, toward reaching established objectives.

The continuing success of this financial management improvement effort depends particularly on strong leadership by top agency officials, and full cooperation by responsible staff at each level of agency operations. We enlist your continued interest and support.


Secretary of the Treasury


Director, Bureau of the Budget


Comptroller General of the United States

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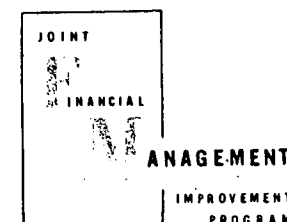
THE JOINT FINANCIAL MANAGEMENT IMPROVEMENT PROGRAM—A SUMMARY PICTURE

Some 15 years ago a cooperative improvement effort—then known as the Joint Program for Improving Accounting in the Federal Government—was started. It began by reason of agreements reached among the top financial officials in the U.S. Government, the Comptroller General, the Secretary of the Treasury, and the Director of the Bureau of the Budget. Officially established in October 1948, this program had the avowed purpose of establishing more efficient and effective financial systems in the Federal Government.

In working toward that goal, effort centered first on improving accounting operations. In the 1950's, however, the work being done under the program obviously was broader than the name implied. The use of accounting information for program decisions, for budgeting, and for reporting and control, focused attention on problems in those areas and stimulated corrective action. Accordingly, the name was changed to the Joint Financial Management Improvement Program.

Today this program is a continuing force for working out financial management and control problems in the areas of programing, budgeting, accounting, and reporting. It is concerned with conforming agency practices to established requirements, and dealing with the challenges of new programs, an ever-changing Government structure, and advancing technology. The work continues as a cooperative effort of all executive agencies, operating under the combined leadership of the Bureau of the Budget, the Treasury Department, and the General Accounting Office.

From the beginning, Congress has had an active interest in the program. The Budget and Accounting Procedures Act of 1950, for example, updated the Budget and Accounting Act of 1921 and related legislation, and gave statutory recognition to the joint program. Other important leg-



islation was enacted in 1949 and 1950, and more recent laws clarified policies and requirements in the financial management field.

Besides the interest of individual congressmen, the appropriations and government operations committees in particular have worked closely with the joint program—both in getting it underway, and in bringing about desired reforms. Many budget and accounting proposals of the first Hoover Commission—created by Congress—were reflected in the initial improvement activities of the joint program. A similar group, the second Hoover Commission, also issued a report of findings and recommendations in the financial management area in 1955. This report cited important gains made by the joint program, but recommended that it be strengthened to obtain faster progress. In addition, the report led to amendments of basic legislation that laid a groundwork for modernization of Federal financial management systems.

Since it began, the joint program has been regarded as a continuing effort of great importance to more efficient management. Changing programs, concepts, and techniques continuously pose new problems. A major aim has been to remain flexible and maintain a capability that will keep abreast of the times—so that the financial management practices of Government do not become outmoded by changing conditions.

The goals and objectives of the program have remained fairly constant over the years. Though restated from time to time, the continuing overall goal has been to improve financial management practices in a way that will best meet the needs of the legislative and executive branches. That goal, in turn, can be broadly summarized in these major objectives:

1. Strengthen organizational facilities and staff capabilities to provide for effective and economical financial management throughout the Government.
2. Establish accounting systems on the accrual basis to provide full disclosure of assets, liabilities, income and expense, and to develop financial data needed for effective management of operations at all levels of Government.
3. Establish financial planning and budgeting techniques that are integrated with programing, accounting, and reporting practices into a single management system—one that supports budget estimates, stimulates economical program management, permits evaluation of the cost of performance, provides for

efficient use of resources, and results in effective control of appropriations, funds, obligations, expenditures, and costs.

4. Establish internal control methods appropriate to agency management needs, including timely and meaningful reports on financial results and program performance, and suitable facilities for internal audit.
5. Integrate agency financial management systems with the requirements of the Federal budget and Treasury's central accounting processes to permit efficient development of accurate and useful Government-wide reports showing the status of funds, financial results, economic impact, and the costs of performing Government functions.

After 15 years of the joint program, to what extent have these objectives been reached? How effective has this cooperative effort been? What results—in terms of ultimate benefits—have been obtained?

While this report is concerned primarily with highlighting significant improvements in Federal financial management practices during the past 15 years, a balanced presentation requires that the progress made be viewed in relation to the total objectives of the joint program. There are two major areas in which progress has not been adequate nor as rapid as it should be. These involve establishing accrual accounting systems that are tailored to the needs of the agency and are in keeping with prescribed principles and standards, and making effective use of cost information for the purposes of internal agency management.

With respect to accounting systems in civilian agencies, for example, the Comptroller General to date has approved 46 complete systems out of 133 subject to approval. In the last 5 years, however, only six have been added to that group. Furthermore, none of the major departments have all their accounting systems approved. In the budgeting area, while most agencies now are presenting cost based appropriation requests, many still use obligation instead of cost data as the basis for day-to-day management of operations. Much work remains to be done, therefore, to reach the goals established in legislation and sought by the joint program.

Despite these kinds of problems, this program has proved to be an effective force in Federal financial management. Today, in contrast with 1948, financial management is more clearly a working partner of general management; budgeting is program oriented and

incorporates improved planning techniques; responsibility accounting is better accepted; financial reporting is more clearly tied to programs and increasingly reflects performance in relation to plans; cost consciousness in management gradually is becoming more evident; and auditing generally is centered on management effectiveness rather than legalistic document review. In 1961, the Senate Committee on Government Operations gave recognition to the advances brought about by this program. In its report on Financial Management in the Federal Government (Senate Document No. 11, issued in February 1961), the committee stated:

Many improvements in budgeting, accounting, and reporting have resulted from the work done under the joint program and the committee is vitally interested in its continued progress.

Not all of the gains, of course, are attributable to staff directly engaged in the joint program. Improvements were brought about by a number of people with different interests—operating managers, program experts, technicians, economists, budget staff, accountants, auditors, etc. Many advances were made through the initiative of such people in individual agencies. Some were made possible by the basis for cooperation provided in the structure of the joint program. Others came about as a direct result of joint studies and recommendations. All, however, combine to reflect the significant changes that have taken place in the past 15 years.

The benefits obtained from these changes are difficult to measure. Savings sometimes can be identified with individual improvements on a one-time basis or over a period of time. In many cases, however, the most valuable contribution is the better management that is brought about by the change. This kind of return cannot be measured in dollars—yet it can be most significant in terms of its impact on program operations.

Overall, one of the best measures of results was provided by the House Post Office and Civil Service Committee. Its Subcommittee on Manpower Utilization compared the number of personnel in financial management at the end of fiscal years 1950 and 1957. A report on that study—House Report No. 2512—was released in August 1958. While this report noted that comparable data were not available from the Defense Department, it pointed out that civilian agencies had reduced the number of financial management per-

sonnel by more than 15% in the 7 years under review. This meant a decrease of over 6,000 personnel, from 39,644 to 33,552. By applying a minimum average salary for financial personnel, this reflects an estimated saving in annual salary costs alone of more than \$30 million. The report also stated:

It is significant that, in a number of instances, reductions were made in financial management personnel through more effective systems and procedures despite level or increased program activities of the departments and agencies. This information clearly indicates that (1) increased program activities and appropriations do not automatically mean an increase in financial management personnel is required and (2) real economies in the use of manpower are possible where effective effort is made to modernize and streamline agency financial management functions.

To this philosophy the Joint Financial Management Improvement Program wholeheartedly subscribes. There is much to be done in working toward established goals. Simplification and modernization are the keynotes of this continuing effort.

15 YEARS OF PROGRESS

In the late 1940's, financial operations in the Federal Government were unduly complex and generated a mass of red tape. There were inadequate communications among the central agencies, and conflicting requirements in numerous instructions to the operating agencies. Budgeting and accounting generally were uncoordinated. The budget placed restrictions on buying specific things, and controls were dedicated almost completely to complying with legal limitations on the use of funds. Agencies were required to use restrictive accounting and reporting procedures that gave little or no attention to the financial data needs of operating managers. Auditing largely dealt with a legalistic examination of a multitude of vouchers. The net effect was to hinder rather than to help management.

Faced with these conditions, the joint program initially took action to clear out the red tape at the top levels of Government—in effect, to first “put the house in order.” One of the first steps was to update legislative requirements.

PROGRESS IN MODERNIZING LEGISLATION

When the joint program began, the Budget and Accounting Act of 1921 was the principal basic law in this field. In addition, certain

Long-Range Planning and Budgeting

In 1960, as an aid to budget planning, the Bureau of the Budget prepared a 10-year projection of expenditure requirements, using alternative economic and policy assumptions. With this experience as a base, agencies since have been asked to develop budget estimates for future years within a frame of reference that looks ahead for several years—currently for a 5-year period. The purposes were to establish forward projections of program levels and requirements, to bring out more clearly the future effect of current budget decisions, and to identify significant program and financial trends beyond the budget year. This introduced into the budget process a new perspective. It assists in more orderly management of the Government's resources, and better allocation of these resources among competing programs.

Budgeting for International Transactions

In February 1963, Bureau of the Budget Circular No. A-58 established a system for budgeting and control of balance of payments transactions in Federal agencies. This gave continuing effect to a procedure tested the preceding 6 months. The circular applies to all agencies that have transactions abroad of more than \$1 million a year. As subsequently amended, it requires the agencies to prepare detailed schedules of such transactions on a semiannual basis.

Agency submissions under the circular are reviewed in the Bureau of the Budget in the same manner as annual budget and apportionment submissions. Receipt and expenditure targets established in this process provide the basis for control. The head of each agency is responsible for minimizing payments and maximizing receipts in international transactions; and for establishing a system of estimating, reporting, and control that will assure compliance with the established targets. While it is not required that there be an accounting segregation of transactions abroad, the agency system should provide complete, accurate, and reliable information on a timely basis. The requirements of Circular A-58 represent a positive approach by the Federal Government toward improving the national balance of payments situation.

Improved Budget Format

The 1963 budget marked the first departure from the 40-year tradition of presenting the budget in large page size, filled with thousands of detailed schedules. The new format eliminated, for the more casual

user of the budget, some of the problems of size and complexity posed by prior documents. It placed in an ordinary book size document the facts and figures most users of the budget would normally need or desire. Additional data for the appropriations committees, and for those concerned with budget details, were furnished in an appendix that resembled budget documents of previous years. Reactions to the change have been favorable. The new format is being continued, and will be refined through further experience.

Automation of Financial Systems

Besides efforts to introduce modern financial management concepts in Government, the joint program gives continuing attention to using the most economical methods of doing business. Probably the most significant development of this nature in the past 15 years has been the growth of automatic data processing. In 1948 there were no electronic computers in Government; in contrast, the annual Bureau of the Budget inventory report as of the end of fiscal year 1963 showed that Federal agencies had 1,248 computer systems in use at that time. These included applications to business, scientific, and engineering programs, but excluded equipment used for tactical, intelligence, and other classified purposes. This is a development of major proportions, one that has tremendous impact on Federal operations.

The Bureau of the Budget performs a coordinating role in automatic data processing in the Federal Government. An interagency committee established in July 1957 provides advisory services to the bureau in carrying out that role. Assistance also is furnished by an ADP Advisory Council, a smaller body of agency representatives set up in November 1962, which reviews problems referred to it by the bureau.

In the early days of the joint program, efforts were made by the central agencies to reduce costs in financial management operations through use of punched card and other mechanized techniques. Simultaneously, there was a growing interest in the potential of electronic computers for budgeting, accounting, reporting, and analyses involving large volumes of data. Many studies were made in the early 1950's, and by 1956 electronic systems were being installed in several financial programs. Today, almost every major Government activity with large-scale financial operations has been affected by the introduction of electronic equipment.

Automatic data processing systems are used most extensively in the Department of Defense. The heaviest area of application is in supply

and logistic programs and related financial operations. The military supply activities, for example, with millions of transactions each month, have made widespread use of electronic equipment to furnish financial and other data needed for making inventory and supply management decisions. Computers are used extensively in the finance centers of each of the military services, and to develop information for the program budgeting system of Defense. Electronic communications networks have been established to transmit more accurate and timely supply and financial management data between using organizations and computer centers.

In the civilian agencies, electronic processing has been applied to administrative procedures and major program operations of a financial nature. In some cases, data processing equipment installed for non-financial program operations also is used for financial procedures. Some agencies with large electronic installations are providing automated financial services of different kinds to smaller agencies that cannot justify such equipment.

In the administrative area, most of the larger agencies now prepare payrolls with the help of computers. Accounting and inventory control systems in a number of agencies utilize ADP techniques. Financial reporting procedures in many cases have been facilitated and speeded up by use of compatible electronic equipment, magnetic tape, and punched paper tape attachments to accounting and business equipment.

Illustrations of program applications include the benefit payment and insurance accounting programs in the Veterans Administration; wage record and benefit payment operations in the Social Security Administration and the Railroad Retirement Board; mortgage accounting in the Federal Housing Administration; inventory accounting in the General Services Administration and the commodity programs of the Department of Agriculture; and savings bond accounting and auditing procedures, internal revenue tax return processing, and the check issuance, payment, and reconciliation operations of the Treasury Department. Studies in other areas are underway—for example, the Bureau of Accounts in Treasury is setting up an ADP system for central accounting and reporting.

PROGRESS IN ACCOUNTING AND AUDITING

Accounting in the Federal Government also has changed significantly over the last 15 years. One of the early and most important developments in the joint program was a change in the basic approach to accounting and financial control.

Today, managerial accounting is the major goal. This means fashioning accounting systems to develop accrual, cost, and fund information that meets the operating needs of responsible officials at the various levels of management. At the same time, it seeks full disclosure and essential safeguards over all available resources. This contrasts markedly with pre-1948 emphasis on across-the-board uniformity and preoccupation with detailed fund controls, which generated unnecessary paperwork and duplicate recordkeeping. Of equal importance is the recognition that financial control must necessarily rest at the point of operations, and be supplemented by a modern audit approach that serves higher level information and control needs.

The General Accounting Office has basic responsibilities in these areas. It has played a prominent role in developing and applying these concepts. Improvements were needed centrally as well as in the operating agencies—some of the major developments are described below.

Elimination of Post Office Accounting in GAO

When the joint program began, the General Accounting Office was performing the administrative accounting and reporting work of the Post Office Department in a field office at Asheville, N.C. The Post Office Department Financial Control Act of 1950 transferred these functions to the Post Office Department. This enabled that department, like other executive agencies, to develop an accounting system suited to its own management needs. In this transfer, the GAO Postal Accounts Division was abolished in 1950, and 900 employees were shifted to the Post Office Department.

Elimination of Central Accounts in GAO

Prior to 1948, the General Accounting Office devoted considerable effort to maintaining appropriation and other accounts covering financial transactions of executive agencies. This not only was a time-consuming, paper shuffling effort, it duplicated similar records in the Treasury Department and the operating agencies. Under authority of

the Budget and Accounting Procedures Act of 1950, the Comptroller General discontinued this operation in fiscal year 1951 by abolishing the GAO Accounting and Bookkeeping Division. The books are now kept at the point of responsibility—summary central accounts in the Treasury Department, and detailed operating accounts in the individual agencies.

This action discontinued maintenance of 500,000 ledger accounts and eliminated 350 employees in GAO, and had other widespread effects. In executive agencies, it eliminated annual preparation and submission of about 900,000 schedules, 30,000 analyses of disbursements and collections, and reports containing over 9,000 pages and 300,000 line items. This change produced direct savings of nearly \$1 million in the General Accounting Office, and uncounted indirect savings in the agencies—which resulted from terminating the voluminous flow of documents needed for maintaining the accounts.

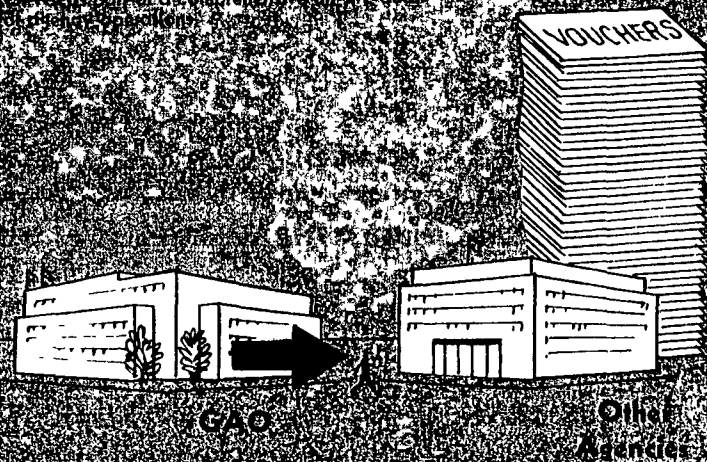
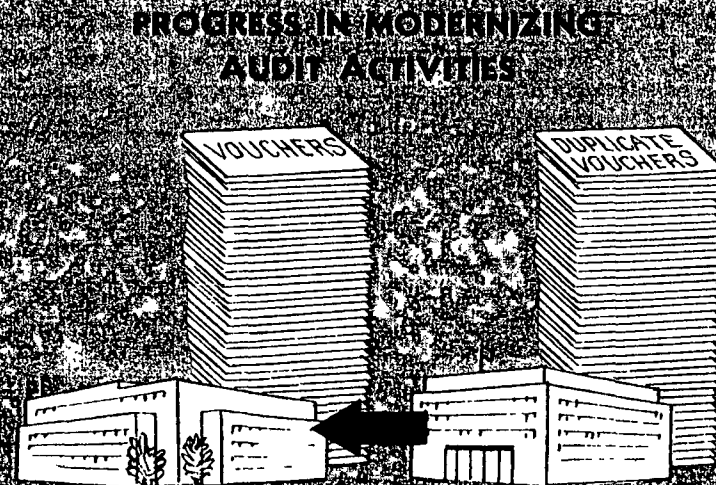
Elimination of Check Reconciliation in GAO

This was another area in which the General Accounting Office joined with Treasury and the Bureau of the Budget to bring about more economical central financial operations. In 1948, checks were paid by the Treasury Department and GAO reconciled those payments with checks issued. Joint study by the three central agencies resulted in a decision to simplify and merge these activities into an integrated system using high speed electronic equipment.

In the new setup, which began in August 1956, Treasury does both the check payment and reconciliation work as a single integrated operation. The General Accounting Office discontinued its reconciliation activities; it now makes test audits at the site of the operation. This resulted in annual savings of over \$1.9 million in GAO. Related changes in the Federal Reserve System and the Treasury Department brought about additional savings of slightly over \$1 million, thus producing a net gain of about \$3 million a year for the Government.

Modernization of Auditing

The early improvement efforts of the General Accounting Office also extended to its auditing operations. In 1948, audit responsibilities were discharged principally by a legalistic "desk audit" in Washington and other geographic centers of financial documents sent in by all operating agencies. This involved tremendous paperwork—both in the agencies, where the documents were administratively examined and



shipped to GAO, and copies were retained for internal use; and in the General Accounting Office, where the documents again were examined to determine finally the legality of the transaction.

The Budget and Accounting Procedures Act of 1950 furnished the statutory basis for revamping these procedures. It authorized the General Accounting Office to perform audits of executive agencies at the site of operations in place of desk audits of documents. This followed a practice used for Government corporations since passage of the Government Corporation Control Act of 1945. Beginning in 1950, therefore, GAO began to extend its comprehensive site audit program to all Federal agencies.

Under this approach, financial documents are retained by the agencies. General Accounting Office auditors, on the site, review the effectiveness of management control systems in an agency, and examine those systems and supporting documents to the degree necessary in each case. The amount of detailed examination is based on the adequacy of internal audit and other management control practices in the individual agency, and on the nature and significance of deficiencies encountered. This results in more effective auditing. With improved procedures for reporting significant audit findings to Congress, it also strengthens congressional control and surveillance. In addition, accounting and financial control deficiencies in agency systems observed by GAO auditors are brought to the attention of agency officials, along with recommendations for needed improvements.

As a measure of progress in the comprehensive site audit program, 56 audit reports were submitted to the 80th Congress (which ended in 1948). In fiscal year 1963, a total of 818 reports were issued—337 were sent to Congress or its committees, and another 481 were addressed to individual agencies.

Furthermore, as this program expanded over the years, cooperative steps were taken to stimulate effective followup action. Today copies of GAO reports are furnished the Bureau of the Budget for use in its management improvement activities. Bureau of the Budget Circular No. A-50 directs each executive agency to give systematic consideration to General Accounting Office reports, and to advise the bureau of action taken on the findings and recommendations. The overall result of this effort has been to more efficiently provide improved audit services to Congress and to management in the executive branch.

Simplification of Claims Settlement Activities

Another improvement in the General Accounting Office was the change in settling claims. With the support of the joint program, Public Law 84-798 was enacted in July 1956 to simplify requirements in this area.

This law had two principal effects. First, it retained in operating agency accounts the unspent balances of appropriations that no longer could be used for ordering goods and services. (Previously such balances had been transferred to a Treasury Department account; when bills were submitted by agency creditors, they were certified by the Comptroller General and then paid from that Treasury account.) Second, the law placed responsibility in the operating agencies for maintaining accounting control over bills chargeable against such unspent balances as long as they were legally due; and it permitted agencies to pay those bills without preliminary review by the General Accounting Office, unless there were doubtful questions of law or fact.

Adoption of these practices substantially decreased the number of routine cases referred to GAO for settlement as claims. As a result, General Accounting Office personnel costing \$600 thousand a year were released or reassigned; agencies could pay bills more promptly; and there were uncounted savings in the operating agencies, due to reduced processing of routine bills.

Improvement of Agency Voucher Examination Operations

To further improve voucher auditing in Government, the Departments of Agriculture and Health, Education, and Welfare tested the use of statistical sampling techniques in their voucher examination operations during fiscal year 1963. These tests gave promise of worthwhile savings. Acting on a request by the Department of Agriculture, however, the Comptroller General indicated a change in legislation would be needed to adopt such practices. By the close of the fiscal year, a team of Bureau of the Budget, General Accounting Office, and Treasury Department representatives was set up to look into this situation on a Government-wide basis. The objectives were to make such arrangements as were necessary to achieve the savings possible through appropriate use of statistical sampling in these agency operations.

Bonding Practices

Protection of the Government against fidelity losses, which is accomplished through bonding Federal employees, has been another area

PROGRESS IN IMPROVING BONDING PRACTICES

BEFORE COST AND COVERAGE

AFTER

FY 1963

TREASURY DEPARTMENT
BUREAU OF ACCOUNTS
SURETY BONDS BRANCH

POSITION SCHEDULE BOND
OF _____
AT _____
Dated _____, 19 _____

The within corporate surety is duly qualified and evidence of the authority of the officers or agents signing on its behalf is on file in this office

960 thousand EMPLOYEES
Bonded for \$3.4 Billion
TOTAL COST \$0.3 Million

Approved.

COST TO EMPLOYEES

NO COST

COST TO GOVERNMENT

ADMINISTRATION \$44 thousand
PREMIUMS \$284 thousand
TOTAL \$0.3 Million

of improvement in recent years. Prior to 1956, employees purchased individual surety bonds and the agencies maintained related records. A study by the joint program led to passage of Public Law 84-323 in August 1955. This permitted use of position schedule or blanket bonds paid for by the Government. As indicated by the chart, even though the amount of coverage increased 67% in the last 8 years, this change produced a reduction of about 85% in the combined cost to the employees and the Government.

Motor Vehicle Accounting and Reporting

A General Services Administration study of these activities, conducted with joint program assistance, was completed in fiscal year 1963. This study was aimed at producing better data for motor vehicle management, and improving related accounting and reporting practices. The joint report identified a potential for substantial savings. The recommendations included proposals that would result in better management reports, and reduce administrative costs through improved accounting and application of statistical sampling techniques. The General Services Administration is using this report to develop a Government-wide improvement program in this area.

Codification of General Accounting Office Instructions

One of the problems in financial management prior to the joint program was the large volume of uncoordinated instructions from the central agencies. In recognition of the need for improving this situation, the three central agencies made arrangements to better coordinate requirements placed on the operating agencies. In the General Accounting Office, action also was taken to establish a more convenient device for issuing and maintaining its own regulations and advisory material.

In September 1957 the General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies was placed in use. It consolidated 175 individual instructions into 9 codified titles. This excludes Comptroller General decisions, which are issued separately. The manual is now the official medium for (1) promulgating accounting principles, standards, and material for agency use in developing accounting systems and internal audit programs; (2) prescribing uniform documents or processes where uniformity is required by law or is otherwise appropriate; and (3) issuing regulations governing General Accounting Office relationships with Federal agencies or private

concerns and individuals doing business with the Government. Set up in loose-leaf fashion, the manual is maintained on a current basis, and has proven to be a readily accessible source of information to the many users in and outside the Federal Government.

Accounting Principles and Standards

One of the basic changes that emerged from early joint program activities was a shift in the General Accounting Office approach to its job of laying out accounting requirements for operating agencies. Authority for this was provided in the Budgeting and Accounting Procedures Act of 1950. It permitted the Comptroller General to prescribe accounting principles and standards to guide individual agencies in developing their own accounting systems, rather than to prescribe uniform procedures for use by all agencies.

The initial developmental work was done by the General Accounting Office, with assistance from the Treasury Department, the Bureau of the Budget, and the operating agencies. Statements of principles and standards were progressively issued by the Comptroller General in the early 1950's. They were designed to provide a framework flexible enough to permit accounting to be fitted to the needs to be served, to stimulate the highest standards of accounting and financial reporting, and to encourage continued orderly improvement of all phases of Federal financial management.

The establishment of accounting principles and standards is not, however, a one-time action. The original statements ultimately were incorporated in title 2 of the General Accounting Office Manual. Revisions and additions have been made from time to time to reflect experience and later developments. Such changes will continue to be made.

Approval of Accounting Systems

The Budget and Accounting Procedures Act of 1950 provides that accounting systems developed by executive agencies shall be approved by the Comptroller General when he deems them to be adequate and in conformity with his prescribed principles, standards, and related requirements. Procedures for obtaining such approvals are furnished in the General Accounting Office Manual.

At the end of fiscal year 1963, 133 organizations in civilian agencies had accounting systems that were subject to approval by the Com-

troller General. At that date, complete systems in 46 of these had been approved; and parts of systems, covering such operations as payroll and property accounting, had been approved in 15 others. In the Department of Defense, only one complete accounting system has been approved—the one covering civil functions in the Army Corps of Engineers. Parts of systems have been approved in nine other instances, relating to such areas as pay and collection procedures.

Because of subsequent legislation and refinements in prescribed requirements, most systems approved the last 15 years need reexamination and updating in the light of current requirements. For example, some of the approved systems do not incorporate accrual accounting to the extent contemplated by Public Law 84-863, approved in August 1956. Therefore, while 46 complete systems have been approved by the Comptroller General as adequate in the light of legislation and conditions as they existed at the time of approval, this does not necessarily reflect the number that would be deemed adequate when measured against current requirements. In recognition of this situation, the General Accounting Office is considering a program of reexamining approved systems and, for those cases that do not meet current requirements, withdrawing approval until the necessary changes are made.

In fiscal year 1963, 15 complete systems submitted to the General Accounting Office for review or approval had to be returned to the agencies because they did not meet current requirements. The principal deficiencies commonly found were:

- A failure to design and operate the accounting systems in a manner appropriate for use of cost-based budgeting practices—particularly for internal management purposes.
- A failure to convert to an integrated cost-based system and, in lieu thereof, adding supplemental procedures to produce accrual information at annual intervals.

Illustrative Application of Accrual Accounting

To assist Federal agencies in developing accounting systems to the point where they may be approved by the Comptroller General, the General Accounting Office in 1962 issued a booklet illustrating the application of the accrual basis of accounting and simplified fund control procedures for agencies and programs in which personal service costs are predominant. It explains certain minimum requirements

that are necessary for approval of accounting systems by the Comptroller General.

A principle feature of the booklet is an illustration of the relationship between fund controls and accounting for assets, liabilities, income, and expense on the accrual basis. Fund control procedures are limited to those essential to prevent overobligation, based on exercising control at the appropriation level. A technique also is demonstrated for monthly recording of transactions on the accrual basis—which is required to obtain approval.

This booklet was distributed to 69 departments and agencies in the Federal Government, and was thoroughly discussed at two meetings held in fiscal year 1963 with agency representatives under the joint program. The purposes were to develop better understanding of requirements, and to promote wide use by Federal agencies in carrying out their improvement programs.

Improved Property Accounting

The development of monetary accounting for real and personal property has received continuing attention since inception of the joint program. Work in this area has been carried out in close collaboration with the General Services Administration. It was stimulated by provisions of several major laws enacted in the financial management field during 1949–50, and was reemphasized in Hoover Commission legislation enacted in 1956. An early indicator of the progress being made was a 1953 report which showed that 11 agencies used financial property accounting practices, covering about \$8.5 billion of fixed assets and \$3.25 billion of inventories.

The Senate has been actively interested in such data. Acting upon requests of the Senate Appropriations Committee, the General Services Administration compiled the first inventory of federally owned real property in the United States at the end of calendar year 1953, and an inventory of such property located outside the United States at the end of fiscal year 1955. In 1957, it furnished this committee the first inventory of real property leased by the Federal Government throughout the world. Subsequent to the initial requests, GSA prepared such reports each fiscal year. Those for fiscal year 1962 show that the Federal Government leased 1.8 million acres of land, and 120.6 million square feet of building space (which excludes building space for Defense military functions outside the United States), at a cost of

\$220.9 million a year; and that it owned real property valued at \$59 billion—\$52.4 billion located within the United States, and \$6.6 billion outside the continental United States.

Similar interests have been shown in the House. In June 1955, the House Government Operations Committee asked the General Accounting Office, the Treasury Department, and the General Services Administration to join with committee staff in compiling a report of all real and personal property held by the United States at the end of fiscal year 1955. Such data since have been compiled annually, based on agency accounting records or estimates of values where agency systems could not produce the desired information. A report is published each year by the committee, under the title "Federal Real and Personal Property Inventory Report." The one for fiscal year 1962 shows that the Federal Government held property throughout the world valued at \$299.4 billion. This was made up of \$86.1 billion of real property, and \$213.3 billion of personal property (inventories, equipment, cash, and other items). The real property values in this report include the cost or value of public domain acreage and construction in progress (approximately \$27.1 billion), which are not shown in the reports prepared for the Senate Appropriations Committee.

The kinds of data included in these reports have proven useful in many areas of management in the Federal Government. They have brought about improved property management—in both acquisition and disposal activities; have been helpful to agencies in planning operations and determining financial needs; and have contributed to better budget decisions in the executive branch and Congress.

Reports of such data would not have been practicable nor as accurate 15 years ago. Today, most agencies can readily supply the monetary property information required. To illustrate, the House Government Operations Committee property inventory report for fiscal year 1962 stated:

A comparison of our previous inventory reports clearly shows the great progress which has been made in improved accounting methods and record-keeping operations employed in recording the amounts of real and personal property owned or controlled by the Federal Government. Up-to-date accounting systems and stimulated interest in property inventories have strengthened the efforts of Government departments and agencies in bringing inventories under accounting control. This progress, which is being constantly observed by the public, Members of Congress, and especially the membership of this committee, has been encouraging.

PROGRESS IN CENTRAL FINANCIAL OPERATIONS

Many advances have been made since 1948 in the central financial operations of the Federal Government. With the Budget and Accounting Procedures Act of 1950 as the mainspring, the objectives have been to simplify the ways in which funds are made available for use; to establish a more efficient system of accounting for the Government as a whole; and to develop Government-wide reports that provide full financial disclosure—in a way that best serves the users of the data.

Accounting operations in the Federal Government today bear little resemblance to those of 1948. Gone is the central papermill—and related red tape—that stemmed from outmoded legislation (some of which dated back to the 18th and 19th centuries). The former rigid requirements on operating agencies, which existed primarily to satisfy burdensome central fiscal needs, have been removed. They have given way to a simplified structure of broad summary central accounts, supported by agency financial systems that are set up basically to meet management needs at the agency level. This avoids duplication, places accountability for funds at the responsible level, and more efficiently provides better data for agency management and for central financial reports.

The Treasury Department is primarily responsible for the central accounting, reporting, and related financial operations. Some of the major accomplishments in this area are set forth below.

Simplified Central Funding Practices

Fifteen years ago, the central accounting operations were geared to outmoded legislation. To make funds available for spending, the law required use of "warrants" and "requisitions"—documents that had to be signed by the Secretary of the Treasury and the Comptroller General. This archaic warrant system gave rise to a great deal of red tape and paperwork, both centrally and in the agencies. The Budget and Accounting Procedures Act of 1950 provided authority for simplifying these procedures.

Four joint regulations on this subject were issued by the Secretary of the Treasury and the Comptroller General over the 6 years following passage of the act of 1950. These regulations modernized the system for bringing funds into the Treasury Department and making them available to disbursing officers. This simplified a variety of accounting processes throughout Government. As an example of

the paperwork reduction, the revised procedures eliminated 8 steps and 38 postings in making an appropriation available for expenditure; 26 steps and 106 postings in handling a repayment to an appropriation; and 33 steps and 136 postings in handling a trust fund receipt. This permitted a speedup of 28 days in making funds available. Even more importantly, these changes freed operating agencies from a preoccupation with rigid central bookkeeping requirements. The agencies were able to direct more talent and energy toward modernizing their accounting systems and providing better financial services to operating management.

Improved Basis for Central Accounting

The present central accounting system, installed progressively in the early 1950's, is based on reports of cash transactions by disbursing, collecting, and administrative offices. Generally, it furnishes an accounting for all cash assets and liabilities, reflects expenditures in terms of either checks issued or cash payments, and shows receipts on the basis of collections by collecting officers. This contrasts with previous practices, which provided for recording expenditures when checks were issued or paid, and receipts on the basis of warrants and advices of deposit from banks.

One effect of this improvement was to afford a positive basis for reconciliation with transactions recorded in agency accounting systems. Another was to provide consistent data for use in various Government-wide reports. To illustrate the latter, the annual budget used to include large unexplained adjustments to make budget totals agree with data shown in the Treasury central reports. Beginning with the 1954 budget, such adjustments were eliminated by reason of this change and coordinated action under the joint program.

Elimination of Duplicate Accounting

Under procedures followed in 1948, there were four sets of appropriation accounts in the Federal Government. These were kept by the Treasury Department, the General Accounting Office, the operating agencies, and the disbursing officers. They were maintained on various bases, making reconciliation of the data most difficult. With the changes made by the central agencies in the early 1950's, there are now just two sets of interrelated appropriation accounts: the detailed administrative accounts in the operating agencies, and summary central accounts in the Treasury Department. The latter are maintained with

data from monthly agency reports, and bring together information needed for central financial operations and Government-wide reports.

As a result of improvements such as these, the Treasury Department identified savings of over \$1 million a year. The General Accounting Office also saved almost \$1 million annually by eliminating their central accounting operation. Dollar savings cannot be identified, however, for the widespread simplifications brought about in the operating agencies by these modifications.

Continuing improvement of the central accounting system can be expected from the constant search for more streamlined practices. For example, in more recent years, the joint program stimulated a revision of accounting relationships between the operating agencies and the Treasury Department. Modified practices installed in July 1961, and progressively improved since then, produced annual savings of \$150 thousand in fiscal year 1963. As another example, the Treasury Department just completed a study looking toward use of a computer for certain central accounting and reporting operations. The proposed electronic system—which should produce further savings—is expected to be operational in fiscal year 1964.

Modernization of Central Reporting Practices

Fifteen years ago central financial reporting in the Government too frequently was characterized by inadequate disclosure of financial results, lack of consistency, and duplication. By reason of developments generated to a considerable degree by cooperative work under the joint program, there have been a number of successful efforts to eliminate these characteristics.

Many kinds of financial reports of a Government-wide nature are put out by various agencies in the Federal Government. An inventory identified 57 in November 1960. Twelve of those were issued by the Treasury Department. One of the major Treasury reports is the annual combined statement of receipts, expenditures, and balances—which is required by law to be submitted to Congress at the beginning of each regular session. In recent years, a number of changes have been made in this report to produce a more informative presentation. These include, for example, an analysis of unspent appropriations to identify how much had been used to place orders, and how much was still available for that purpose; information showing the use of foreign currencies, as reflected in a foreign currency accounting, control, and

reporting system put into effect by the Treasury Department in 1953; and a balance sheet as of the close of each fiscal year, showing the cash assets and liabilities of the Government, as related to cash receipts and expenditures.

Basic current reporting of the Nation's finances is accomplished through daily and monthly Treasury statements. Until February 1954, only a daily statement was used to report on receipts, expenditures, and the Government's surplus or deficit. Under that practice, considerable difficulty was experienced in trying to tie the data back to other Treasury and agency reports. A joint study of the problem led to adopting a policy of using a monthly as well as a daily report for this purpose. Under this policy, the daily statement shows only the Government's cash assets and liabilities in the account of the Treasurer of the United States, and related cash deposits and withdrawals; and the monthly statement reflects classified receipt and expenditure data, plus the budget surplus or deficit. This change had the advantage of tying directly to the central and operating agency accounts, and permits accurate comparisons with other Treasury reports and budget estimates.

In 1961 a joint team of central agency representatives completed a study of Government-wide financial reports. That team inventoried existing reports, identified the users and their needs, and developed recommendations for a coordinated system that would adequately serve the users' interests. The most recent result of that study is Treasury Circular No. 1073, released in May 1963. That circular established a new monthly report of gross obligations in the agencies, classified by object of expenditure. Such Government-wide data were determined to be necessary for more effective analysis of the economic impact of Government operations on the private economy.

Another area substantially improved in recent years is the development of balance sheets in Federal agencies. This provides a good illustration of the interrelationships of various improvement actions of the joint program. Under the Government-wide modernization program conducted by the Bureau of the Budget, the agencies are required to develop financial property information and other data used to prepare a balance sheet. The General Accounting Office principles and standards provide criteria for this work. Treasury Department Circular No. 966 requires all agencies to submit balance sheets for their operations at the end of each fiscal year. This circular previously applied only to Government corporations and revolving funds,

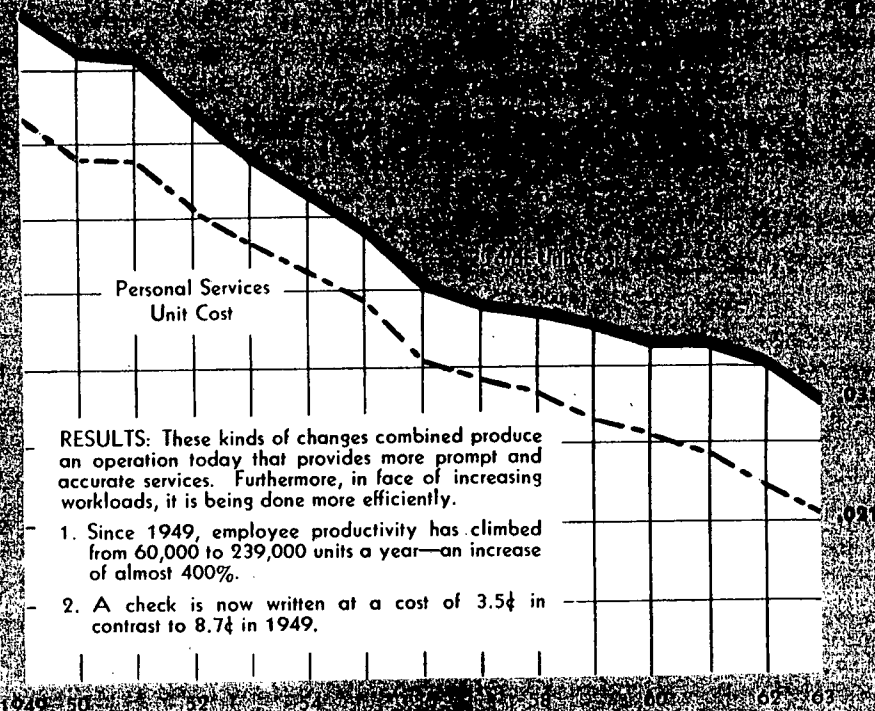
but was extended in June 1956 to all operating agencies. The data furnished by the agencies in response to the circular are used in the Treasury Department's annual combined statement of receipts and expenditures, on a basis consistent with information reflected in the annual budget; and provide source data for information submitted by Treasury to the House Committee on Government Operations, for use in its annual report on real and personal property owned by the Government.

The progress made by agencies in producing balance sheet information is shown by this comparison—72 agencies submitted the required statements for fiscal year 1956; in fiscal year 1963, 153 agencies produced 267 statements of financial condition. In about 10 of the latter agencies, the balance sheets were not complete—some showed assets only, and still needed liability data. In addition, a few of the larger agencies are not complying with Treasury's Circular No. 966. However, the increasing number of organizations that can produce the necessary data from their accounting records is encouraging.

Developments in Disbursing

The Treasury Department is the central disbursing agency for virtually all civilian agencies in Government. It issues U.S. savings bonds and about three-fourths of all Government checks. (The Post Office and Defense Departments are the other major disbursing agencies.) The use of progressive management practices, improved technology, and simplified procedures over the past 15 years have been chief factors in a 400% gain in the productivity of this Treasury operation. In face of a continuing increase in workload (which reached over 340 million items in 1963), constantly rising salary costs, and substantially increased prices for materials and supplies, the cost of producing a check continually has been lowered. When this operation first began 30 years ago, it cost about 13 cents on the average to write a check. The most recent trend of this average unit cost—down to a low of 3.5 cents in 1963—is shown in the accompanying chart.

Many things have contributed to this record. One was the conversion of checks from paper to punched card form—which facilitated use of modern equipment. During the past 15 years this conversion was accelerated and carried through to completion. Another factor was the action taken in 1952 to decentralize payments for small procurement. This was accomplished through joint regulations devel-



oped by the Treasury Department, the General Accounting Office, and the General Services Administration. Under those regulations, agency cashiers can use cash made available by Treasury in "imprest funds" to pay for small local purchases. This action also paved the way for related economies in the operating agencies.

A major development in disbursing was a comprehensive joint study completed in December 1957. This culminated several years of effort to determine whether agencies with large volumes of payments should do their own disbursing. The two agencies most prominently involved (the Social Security and Veterans Administrations) accounted for about 70% of Treasury's disbursing workload. The study recommended against decentralization, but proposed improvements in existing practices. These since have been progressively implemented. They involved such things as consolidating benefit payment workloads, eliminating and consolidating files, simplifying detailed procedures, using electronic equipment, and closing 11 of 22 Treasury regional disbursing offices (which includes 2 closed at the beginning of fiscal year 1964). Since 1957, these improvements alone produced identified savings in Treasury that have reached a level of \$2.6 million annually.

Meanwhile, the Treasury Department is working cooperatively with operating agencies to convert additional payment workloads to electronic systems. For example, a computer was installed in the Washington Regional Disbursing Office in July 1963 to process civil service retirement checks, income tax refunds, payrolls, and other repetitive payments.

Improved Procedures for Timing of Payments

Late in fiscal year 1963, the joint program started a Government-wide study of the timing of payments in Federal grant and contribution programs. Staff of the Treasury Department, the Bureau of the Budget, and the General Accounting Office were designated as a team to review practices followed by operating agencies in releasing cash under such programs. The objective is to develop consistent practices that defer the timing of cash withdrawals from the Treasury to those amounts actually needed for program purposes by the recipient. This avoids a buildup of cash balances by the recipient, and reduces Federal interest costs on borrowings by the U.S. Government.

This study was started after it was found that some States and international agencies participating in grant and contribution programs

were building up cash balances under existing Federal disbursement practices. These idle funds were being invested, resulting in a situation where the recipient was benefiting from investment earnings while the Federal Government was paying interest for borrowing such funds. Individual agencies in some cases already have acted to eliminate or minimize such situations. As one example, an international agency was found to have cash generated by U.S. contributions in excess of its program needs. Steps since have been taken by the State Department to defer disbursements of such funds pending a program need in the international agency. As a result of this action, the retention of cash in Treasury for a longer period of time had a value equivalent to over \$1 million in annual interest costs to the U.S. Government.

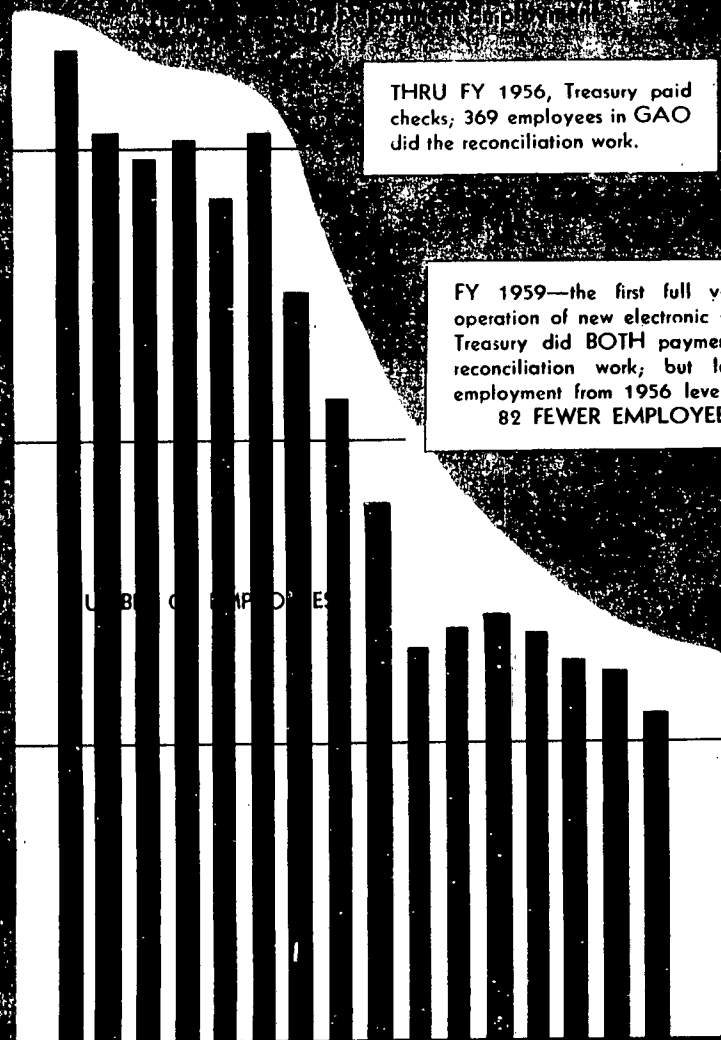
Consolidation of Payment and Reconciliation Activities

The Treasury Department today does all check payment and reconciliation work, subject to audit by the General Accounting Office. Until fiscal year 1957, GAO reconciled payments made by Treasury with checks issued, but that approach was discontinued as a result of a joint study. Basic to this change was the application of electronic processing equipment, a field in which the Treasury pioneered in the early 1950's.

This is another operation with a constantly growing workload. In fiscal year 1963, over 466 million checks were processed, an increase of more than 97% since 1948. Despite practically a doubling of the work, the related Treasury employment went downward, as shown in the chart on the following page.

In the aggregate, this improvement produced a \$3 million annual saving. This is made up of more than \$1.9 million saved by eliminating reconciliation work in the General Accounting Office, a \$1.4 million savings in related Federal Reserve System operations, and an offsetting increased cost of less than \$400 thousand in the Treasury Department. One of the main contributions to these results was the complete conversion to the punched card check in all Government disbursing offices. Without the mechanization made possible by that conversion, handling payments for the increased volume of checks would easily have cost at least another \$5 million a year; and the reconciliation work in the General Accounting Office would have cost substantially more.

Treasury employment in this area has continued to go down since fiscal year 1959, the first full year the new electronic system was in use.



OVERALL SAVINGS \$3 MILLION A YEAR

A contributing factor is the cooperative work with Government disbursing offices to furnish check-issue data on magnetic tape. Data submitted in that form can be used in the electronic system to automatically reconcile check issues and payments, thus cutting down manual work. At the end of fiscal year 1963, about 70% of all Treasury checks were reconciled in this way. Another factor was the acquisition of new and replacement equipment that is faster and has more capacity. Furthermore, the Treasury Department now owns the equipment instead of renting it. This is calculated to produce added savings of over \$1.2 million in the 5 years following purchase.

As another development, use of this electronic facility was extended to reconciliation of money orders for the Post Office Department. This resulted from a joint study and agreements reached in fiscal year 1961. Installation of the system began in April 1962—in full operation it will produce overall savings to the Government of about \$650 thousand a year. In addition, it will provide improved service to the public, and more accurate reconciliation, control, and audit of money orders.

PROGRESS IN STRENGTHENING STAFF RESOURCES

As the joint program moved ahead, it was recognized that the most modern financial management systems would be of little value unless qualified people were available to use the systems properly and keep them up to date. In other words, the system itself would not do the job; success depended on the people that operated the system. The revised financial management practices introduced since 1948 called for high caliber finance personnel who were "management minded," i.e., staff who recognize that their responsibilities include seeking out the needs of program managers, and fashioning efficient systems to meet program requirements as well as provide necessary fund controls.

In the early 1950's, it was evident that much work was needed to train and develop such personnel. The operation of outmoded systems instilled in many financial staff a legalistic, restrictive approach to budgeting, accounting, and control. The caricature of the "green eyeshade bookkeeper" was not unwarranted in some cases—those who considered their job to be limited to maintaining detailed fund controls and providing neatly balanced records of what happened in the past. Furthermore, in many cases, higher-level positions were filled with personnel who had grown up in such an atmosphere. Clerical and